

Code of Business Conduct and Ethics

Introduction

This Code of Business Conduct and Ethics reflects the commitment of Nanophase Technologies Corporation to maintaining the highest standards of business conduct and ethics. This Code has been adopted to promote ethical conduct and compliance with applicable law, to help avoid conflicts of interest, to provide an avenue for disclosure of any departures from the Code, and to provide accountability for adherence to the Code.

This Code is applicable to all employees (including, throughout the Code, all officers) and directors of Nanophase. The Code covers a wide range of business practices and procedures. This Code cannot possibly cover every issue that may arise, but it reflects basic principles of ethical conduct to guide all individuals and to help avoid even the appearance of improper behavior. This Code reflects only a part of our commitment to this standard. The following additional policies of Nanophase supplement the Code in certain areas and should be read in conjunction with this Code: the Policy on Insider Trading, the Company's Confidential Information and Proprietary Rights Agreements and Nanophase's Employee Handbook.

All employees and directors of Nanophase are expected to read, understand and comply with the policies in this Code. If you have any questions about whether any conduct may violate this Code, you should consult with your supervisor or the Compliance Officer, as further discussed in Section 10.

1. Legal Compliance

All employees and directors must respect and obey all laws that apply to our business. This includes first, applicable U.S. laws, then any applicable international laws governing our business conduct. While we do not expect you to memorize these laws, you must be able to determine when to seek advice from others. If you have any question as to the applicability of any law, you should talk with your supervisor or the Compliance Officer. Disregard of the law will not be tolerated. Violation of applicable law may subject an individual to discipline, up to and including termination, as well as civil or criminal penalties.

2. Insider Trading

Employees and directors may not buy or sell shares of Nanophase when they possess material, non-public information. They also are prohibited from passing on such information to others who might make an investment decision based on it.

Employees and directors also may not trade in stocks of other companies (including customers, suppliers, competitors, or parties to proposed acquisitions or divestitures) about which they learn material, non-public information through the course of their employment or service. Any questions as to whether information is material or has been adequately disclosed should be directed to the Compliance Officer.

Using material non-public information in connection with buying or selling securities, including “tipping” others who might make an investment decision based on this information, is both unethical and illegal. Employees and directors must exercise the utmost care when handling material inside information. We have a separate Policy on Insider Trading to which you are bound as a condition of your employment here. You should consult that policy for more specific information on the definition of “material inside information” and on buying and selling our securities or securities of companies with which we do business.

3. Conflicts of Interest

A “conflict of interest” exists when the personal interest of an employee or director interferes or appears to interfere in any way with the best interests of Nanophase. Conflicts of interest can occur when an employee or director takes action or has interests that could reasonably be expected to make it difficult to make objective decisions on behalf of Nanophase or to perform his or her duties effectively. Conflicts of interest also arise when an individual, or a member of his or her family, receives improper personal benefits as a result of his or her position with the Company.

Conflicts of interests are prohibited as a matter of corporate policy. We expect our employees and directors to be free from influences that conflict with Nanophase’s best interests. Even the appearance of a conflict of interest where none actually exists should be avoided. Factors that may be considered in evaluating a potential conflict of interest include:

- whether a matter may interfere with the job performance or responsibilities of an individual who has access to confidential information;
- any potential adverse or beneficial impact on our business or our relationships with our customers, suppliers or other service providers;
- whether a matter would enhance or support a competitor’s position;
- the extent to which a matter would result in financial or other benefit (direct or indirect) to the individual or any of our customers, suppliers or other service providers; and
- the extent to which a matter would reasonably appear improper to an outside observer.

It is not feasible to list all situations which would constitute a conflict with the interests of Nanophase. However, the following are examples of situations that may, depending on the facts and circumstances, involve conflicts of interests:

- Any activity that enhances or supports the position of a competitor to the detriment of Nanophase, including employment by or service on the board of a competitor.
- Owning, directly or indirectly, a significant financial interest in any entity that does business, seeks to do business or competes with us. In addition to the factors described above, persons evaluating ownership for conflicts of interest should consider the size and nature of the investment; the nature of the relationship between the other entity and Nanophase; the individual’s access to confidential

information and the individual's ability to influence Nanophase decisions. If you contemplate acquiring a significant financial interest of that kind, you must seek Nanophase's approval in advance.

- Performing outside work or soliciting such business on Nanophase's premises or while working on Company time.
- Soliciting or accepting gifts, favors, loans, charitable contributions or preferential treatment from any person or entity that does business or seeks to do business with us. See Section 6 for further discussion of this type of conflict.
- Taking personal advantage of corporate opportunities. See Section 4 for further discussion of this type of conflict.
- Engaging in an independent business venture or performing work or services for another business or organization when that the activity prevents such individual from devoting the time or effort to our business which his or her position requires.
- Disclosing our business transactions to your family members or persons who share your household or a business in which you have a significant financial interest. Material related-party transactions that may be approved by the Audit Committee and involve any executive officer or director will be publicly disclosed as required by applicable law.
- Political contributions made by the Company for more than a de minimus amount (as defined by the U.S. Internal Revenue Code), or any political contributions made by Company employees on an involuntary basis.

Any employee or director who becomes aware of a conflict or potential conflict, or who has a question about whether a conflict exists, should bring it to the attention of the Compliance Officer.

4. Corporate Opportunities

You may not take personal advantage of opportunities of which you become aware as a result of your position with us or through your use of corporate property or information, unless authorized by the Compliance Officer or the Compensation and Governance Committee. Even opportunities that are acquired privately by you may be questionable if they are related to our existing or potential lines of business. Participation in an investment or outside business opportunity that is related to our existing or potential lines of business must be pre-approved. You cannot use your position with us or corporate property or information for improper personal gain, nor can you compete with us in any way.

5. Maintenance of Corporate Books, Records, Documents and Accounts; Financial Integrity; Public Reporting

The integrity of our records and public disclosures depends on the accuracy and completeness of the information supporting the entries to our books of account. Making false or misleading entries is strictly prohibited. Our records serve as a basis for managing our business and are important in meeting our obligations to those with whom we do business. As a result, our books, records and accounts should accurately and fairly reflect our assets, liabilities, revenues, costs and expenses, as well as all transactions and changes in assets and liabilities. We specifically require that:

- no entry be made in our books and records that intentionally hides or disguises the nature of any transaction or any of our liabilities, or misclassifies any transactions as to accounts or accounting periods;
- transactions be supported by appropriate documentation;
- the terms of sales and other commercial transactions be reflected accurately in the documentation for those transactions and all such documentation be reflected accurately in our books and records;
- employees comply with our system of internal controls; and
- no cash or other assets be maintained for any purpose in any unrecorded or “off-the-books” fund.

Our accounting records are also relied upon to produce reports for our management, stockholders and governmental agencies. All individuals share responsibility for maintaining and complying with these required internal controls. Employees who collect, provide or analyze information for or otherwise contribute in any way in preparing or verifying these reports should strive to ensure that our financial disclosures are accurate and transparent and that our reports contain all the information about Nanophase that would be important to enable stockholders and potential investors to assess our business, finances and the integrity of our accounting and disclosures. In addition:

- no employee may take or authorize any action that would cause our financial records or financial disclosures to fail to comply with generally accepted accounting principles or applicable law;
- all employees must cooperate fully with our accounting department, as well as our independent public accountants and counsel, candidly respond to their questions and provide them with complete, accurate information; and
- no employee should knowingly make (or cause or encourage any other person to make) any false or misleading statement in any of our reports filed with the SEC or knowingly omit (or cause or encourage any other person to omit) any information necessary to make the disclosure in any of our reports accurate in all material respects.

Any employee who becomes aware of any departure from these standards must report his or her knowledge promptly to a supervisor or the Compliance Officer.

6. Gifts and Entertainment

Business entertainment and gifts are meant to create goodwill and sound working relationships and not to gain improper advantage with customers or facilitate approvals from government officials. Unless express permission is received from the Compliance Officer or the Compensation and Governance Committee, entertainment and gifts cannot be offered, provided or accepted by any employee unless consistent with customary business practices and not (a) more than de minimus value (as defined by the U.S. Internal Revenue Code, Foreign Corrupt Practices Act or other applicable laws), (b) in cash, (c) susceptible of being construed as a bribe or kickback or (d) in violation of any law. This principle, which does not prohibit reasonable customer or prospect entertainment, applies to our transactions everywhere in the world, even where the practice is locally considered “a way of doing business.”

The giving of gifts, including meals, entertainment, transportation, and lodging, to officials in the various branches of federal, state or local governments, is restricted by law. Under certain circumstances, giving anything of value to a government official to obtain or retain business or favorable treatment is a criminal act that may subject an individual to prosecution. You should discuss with the Compliance Officer any proposed entertainment or gifts if you are uncertain about their appropriateness.

7. Confidentiality

Consistent with Nanophase's Confidential Information and Proprietary Rights Agreements with its employees, all employees and directors who have received or have access to confidential information must protect the sanctity of this information, except when disclosure is authorized by the Company or required by law. A detailed definition of the wide range of tangible and intangible proprietary information that is included under "Confidential Information" and your obligations concerning it is provided in the Confidential Information and Proprietary Rights Agreements. You should periodically review your Agreements with Nanophase to ensure that you understand and comply with all your confidentiality duties under those Agreements and applicable law. Any questions about whether information is confidential should be directed to the Compliance Officer. Further, employees and directors are encouraged to contact the Compliance Officer confidentially with any concerns they may have regarding the violation of this policy.

8. Media/Public Discussions

It is our policy to disclose material information concerning Nanophase to the public only through specific limited channels to avoid inappropriate publicity and to ensure that all those with an interest in our Company have equal access to information. All inquiries or calls from the press and financial analysts should be referred to the Compliance Officer or the Chief Executive Officer.

9. Waivers

Any waiver of this Code for executive officers or directors may be authorized only by our Board of Directors or a committee of the Board and will be disclosed to stockholders as required by applicable law.

10. Compliance Standards and Procedures

Compliance Resources

We have designated Jess Jankowski, Nanophase's Acting Chief Financial Officer, Vice President and Corporate Controller as the Compliance Officer with responsibility for monitoring compliance with this Code. The Compliance Officer reports directly to the Chief Executive Officer and also will make periodic reports to the Compensation and Governance Committee regarding the implementation and effectiveness of this Code. Mr. Jankowski is available for any assistance and information. His telephone number is 630-771-6702 and his e-mail address is JJankowski@nanophase.com.

The Compliance Officer is a person to whom you should address any questions or concerns. The Compliance Officer also is responsible for:

- investigating possible violations of this Code;
- training new employees and directors in Code policies;
- updating the Code as needed and alerting employees and directors to any updates, with appropriate approval of the Compensation and Governance Committee, to reflect changes in the law, Company operations and in recognized best practices; and
- otherwise helping to promote an atmosphere of ethical conduct.

Your most immediate resource for any matter related to this Code is your supervisor. He or she may have the information you need. If you prefer not to go to your supervisor, you should feel free to discuss your question or concern with the Compliance Officer. If you are uncomfortable speaking with the Compliance Officer, you should contact the Chief Executive Officer or the Chairman of the Compensation and Governance Committee.

Reporting Violations

If you believe or suspect that a violation of this Code or applicable law has occurred, you must report it immediately to your supervisor or the Compliance Officer. This will enable the Company to investigate and address any reported problem promptly and effectively. Investigations of matters arising under this Code will be treated with confidentiality to the extent feasible, subject to the Company's obligations under applicable law. Nanophase will not permit anyone who makes a complaint under this Code or assists in the investigation of any matter arising under the Code to be subjected to coercion, interference or retaliation.

Discipline/Penalties

If an investigation indicates that a violation of the letter or spirit of this Code may have occurred, we will promptly take such action as we believe to be appropriate under the circumstances. Such action may include corrective measures, up to and including termination of employment, or removing a person from his or her position as an officer or director. Employees and directors who have information about a violation and fail to promptly report or correct it also may be subject to disciplinary action. Violation of certain provisions of this Code also may subject an employee or director to civil and criminal liability.

Acknowledgment

I acknowledge that: (1) I have received a copy of Nanophase's Code of Business Conduct and Ethics; (2) I have read the Code and I understand all its provisions; (3) I agree to comply with all the provisions of the Code; and (4) I understand what may result if I do not abide by the Code.

Name (Please Print): _____

Signature: _____

Date: _____

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